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Marketing: Knowing the Territory

Homestyle Lending in Portland

Breaking into New Markets

The Key to Realtor Business

CONTENTS

NOVEMBER 1988 VOLUME 49 NUMBER 2

COVER: Marketing: Knowing the Territory

Every mortgage lender would love to do more business. If there was a single formula for building mortgage market share—a one-loan-fits-all approach—mortgage banking would be a different business. Instead, lenders are faced with selling to a myriad of different consumers shaped by diverse regional preferences. Tailoring mortgage origination tactics to the home audience in each market is key to surviving and thriving in this year's crowded and competitive marketplace.

16 Successful Lending in Your Own Backyard Two partners demonstrate how to run a thriving one-office mortgage company in Portland, Oregon. The operating plan: concentrate on serving one market very well. RICHARD BRUNS

27 Building Business Ties with Realtors Realtors have a lot to say when you ask them what they do and don't like about lenders. Brokers appreciate straight talk about processing time and loan approval, but above all they like the lender that makes a deal fly. HOWARD SCHNEIDER

39 Mortgage Markets: Speaking the Local Language Some lessons mortgage lenders have learned when expanding into new markets. Culture shock can impair a loan officer's production numbers. SHARON GELTNER AND JANET REILLEY HEWITT

Strategy

48 Strategic Planning at the Crossroad A Wall Street expert counsels mortgage executives that corporate intuition is no substitute for a strategic plan. PATRICIA M. SHERLOCK

Roundtable

59 Affordable Rental Housing: A Good View of the Playing Field Finding a way to finance affordable rental housing is one of the thorniest policy issues of the day. A roundtable panel discusses possible solutions in this era of low-income housing constraints. LESLIE PLATT AND JOHN BOHM

Servicing

76 Servicing: Staying Lonely Is a Sign of Success No contact with the borrower is almost always a sign the servicing operation is working well. But that lost customer contact, and with it opportunities to cross-sell other products, is offset by other sound business reasons to invest in top-flight customer service in your loan administration unit. SUZANNE C. SAMSON, CMB

77 Under Reconstruction—Making Servicing Portfolios Pay Servicing managers need a strategy and a detailed plan for shaping their ideal portfolios. HERBERT L. CARREL, CMB

Insurance

82 EDS Develops Computer Flood Program to Protect Lenders Most borrowers with homes in high-risk flood zones aren't aware they could be in deep water. A system helps lenders identify the need for flood insurance. ANITA SEELIG

DEPARTMENTS

9 BOARDROOM VIEW
13 BUSINESS ALERT
95 THE SECONDARY MARKET
97 ECONOMIC TRENDS
102 INDEX TO ADVERTISERS

COVER BY MARK SEGAL AND J. McGRAIL

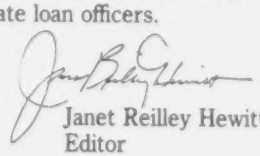
Mortgage Market Geography

"Knowing the territory" means more than just being familiar with the lay of the land, or local real estate values, for mortgage bankers. It also means understanding the economic landscape. But in these times of volatile interest rates, the economic geography is hard to chart. It is easier, by far, to find a road map for local borrower preferences and origination volume by tapping the knowledge of local Realtors.

Although the industry's strategic planners start from the premise that lenders now operate in a single nationwide mortgage market, loan officers working the front lines know it is not that simple. Admittedly, there are some universal tenets that underlie the workings of all local mortgage markets. But there are just as many other local market nuances that make opening a new branch office a real pioneering venture, particularly in today's marketplace.

This month's cover report on marketing offers insights on what motivates real estate brokers to keep bringing business back to certain lenders. The issue also profiles the hands-on origination techniques that are working well for a small, one-office mortgage company in Portland, Oregon. The importance of speaking the same language as local Realtors and borrowers and having the right products is emphasized in a report about lenders who are breaking into new regional markets.

Strategic planning is critical to charting a profitable path through the less predictable economic and regulatory territory ahead. One article tells how to draw up a strategic plan for navigating those rocky roads. On the servicing front, an article probes ways to develop a management reporting system to direct servicing profitability and restructuring goals. Another features good business reasons for investing in a top quality servicing operation. Finding ways to help finance affordable rental housing is the tough issue on the table for discussion by a spectrum of experts. Boardroom View shares some ideas from CEOs who have found different ways to compensate loan officers.



Janet Reilley Hewitt
Editor

COMING IN DECEMBER

Missing Pieces of the Puzzle

After November's election, one major piece of the puzzle depicting future housing policy will be filled in. The next chief executive will set the course for key federal housing programs, such as the FHA, and the fate of full deductibility of mortgage interest, subsidized housing and the continued role of the secondary market agencies. In next month's issue, we will highlight likely housing policymakers in the next administration. The issue will also piece together the housing policy legacy of outgoing HUD Secretary Sam Pierce.

Editor's Note: **Mortgage Banking** is examining alternatives to its current mailing system to expedite delivery of issues to its subscribers. We understand that some subscribers have experienced delays in receipt of recent issues and we are taking steps to alleviate the problem. We appreciate your patience and assure you that preserving the timeliness of our publication is a top priority.

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Strategic Planning at the Crossroad

Intuitive judgment is no substitute for a well-constructed strategic analysis.

Patricia M. Sherlock

Mortgage bankers are at a crossroad. The glory days of the six-year bull market are at an end. Gone with that is the comfort zone of selling mortgages for a gain. Today, mortgage companies are faced with the harsh reality of an unfriendly market in a rapidly changing business environment.

Many mortgage firms have reacted to the new conditions by focusing solely on a single part of the business, such as risk management, production, or loan administration, as the answer to the unaccustomed dilemma of shrinking income levels. Frequently, this myopic approach overlooks the critical step of strategic analysis, a failure that must be avoided.

Through strategic analysis, management can: identify the new external realities a firm faces; review the internal functions and efficiencies of the company; and target future opportunities and risks (Chart 1).

Strategic analysis is generally regarded as a worthwhile exercise, but it is often ignored. The most commonly mentioned excuse for the failure to strategically plan is that of a too thinly spread management team trying to cope with daily emergencies. In an industry where one-third of the companies have fewer than 10 employees, planning can indeed seem like a luxury. However, the present realignment of the financial services sector has been so dynamic, and will continue to be so, that even smaller firms cannot afford to operate on corporate intuition and past successes. The current unforgiving business environment forces all mortgage companies—large and small—to probe every aspect of the marketplace in which they operate.

The initial step in strategic analysis involves two broad reviews:

- the external conditions encountered by a firm, including economic and regulatory factors; and,
- the intrinsic issues of competition and customer markets.

The results of the external and intrinsic reviews are then assessed against a firm's resources. The goal in strategic analysis is not to set unrealistic objectives, but to critique the external and intrinsic challenges and their potential impact, with the firm's strengths and resources. The bottomline result of this approach is the development of a strategy that will be shaped by market demands and within a firm's resources. A strategic analysis approach developed any other way tends to force the results and decrease the value of the review.

The strategic analysis discussion which occurs gives special emphasis to issues common to all mortgage bankers; but, each firm should address local variations and experiences when implementing its plan.

Two external conditions that should be examined in depth are the state of the financial marketplace and regulatory issues.

A key factor that impacts all mortgage lenders is the volatility of interest rates. Interest rate volatility had its origin in the regulatory and market changes of the 1970s. The deregulation of the financial services industry and the adoption of a quasi-monetarist approach by the Federal Reserve Board have increased rate volatility. In basic terms, monetarism emphasizes the money supply as the critical element the Fed watches in taking policy steps that determine interest rates. The net effect of this approach has been to let interest rates rise to whatever level is required to meet targeted money supply growth ranges. One result of a targeted money supply program is a tendency to have dramatic rate swings and volatility. A further complication encouraged by a monetarist approach is a tendency by both investors and sellers to stay on the short end of the yield curve, which adds to rate volatility.

Chart 2 illustrates the market's volatility during the 1982-1988 bull

ILLUSTRATION BY LINA CHESAK

market for the benchmark, 10-year U.S. Treasury bond. While Treasury rates declined overall in that six-year period, impressive rate movement was a frequent occurrence, throughout the bull market era. Mortgage bankers remember only too well the dramatic rate swing experienced in April and October 1987. From a strategic planning perspective, the key question is: Will rate volatility continue? And if so, what will it mean for mortgage bankers?

The Fed has followed a monetarist approach for more than a decade and there is no indication that this general approach will be altered. As a result, mortgage bankers' pipeline and servicing portfolios will continue to experience dramatic interest rate shifts. The difference, during the next few years, will be a decreased margin for errors, given the end of the bull market. Thus, the future success of a mortgage company will be tied to how well it can manage in a bear market with high rate volatility. One example of a strategic issue that will need to be addressed in this unfriendly market scenario will be the viability of offering "free" ratelocks to borrowers. Only companies with substantial capital cushions will be able to survive with such an operating strategy.

Another major external condition that should be addressed is the regulatory environment. Historically, mortgage finance has been a political matter in the U.S. There is no reason to anticipate this will change in the near future or that governmental involvement will lessen.

The broader issue that mortgage bankers should explore is the speed and impact of future deregulation in the financial services sector. The continued erosion of the Glass-Steagall Act barriers, the disappearance of branching restrictions on depository institutions and the removal of distinctions between banks and thrifts will all increase the rate of entry of firms into the mortgage arena. The mortgage banking business will continue to be attractive to these players because of the fragmentation of the market and the potential for economies of scale. Furthermore, the mortgage banker's niche as the main provider of fixed-rate mortgages to borrowers pales in an environment of asset securitization. Fixed-rate products, which had been the nemesis of the thrift industry, are no longer such a threat when they can be packaged and sold into the secondary market.

The key issue in a further deregulated marketplace will likely be market share. A market share driven industry will place a higher value on functional efficiencies: a lean and mean organization will be the required operating mode in the 1990s.

Another area to be examined in the strategic analysis plan is the intrinsic or micro issues. Competition and market demand for mortgage finance products are important factors to be addressed. Several trends have evolved which suggest strong competition and a realignment of mortgage firms. Competition in mortgage lending has intensified due to financial sector deregulation. While there are approximately more than 30,000 institutions with mortgage lending franchises, only 7,600 firms are meaningful mortgage lenders[1]. In 1987, the top 25 largest residential mortgage (Table 1) servicers held 25 percent of the market share and had begun to increase their share. It appears that the mortgage industry is dividing into two groups—large and small players.

This division between the large and small firms is reflected in a market trend of consolidation. Strategically, consolidation in the mortgage industry is part of the larger trend of the shrinkage in the number of financial service firms. The merging process will accelerate as financial firms contend with narrowing interest margins and escalating operating costs. One estimate is that between 10 percent and 48 percent of financial firms in existence today will disappear in the next five to ten years.

A report published in *American Banker*[2] projects that consolidation of financial institutions has many similarities to what occurred in the retail merchandising industry. Grocery stores and gas stations experienced rapid growth between 1963-1972, but after hitting a saturation point, they consolidated. Today there are fewer branch outlets in that industry than in 1954. Presently, 20 percent of all gasoline is sold through non-branch outlets such as convenience stores. There is a sobering analogy here for mortgage lenders.

Another critical issue for strategic planners in the mortgage industry is the slackening demand for home loans. For many firms that expanded to serve the record volumes of 1986 and 1987, the current year has brought home the reality of lower mortgage volume. The key strategic planning issue is whether this is a long-term trend.

It is important to recognize that the surge of mortgage volume in 1985 and 1986 was largely due to the tremendous amount of refinancing. Currently, only 5 percent of the total mortgage-backed securities outstanding are premium coupons, which reduces the potential number of refinancing customers.[3] It seems realistic, therefore, to project future-year reduced mortgage volume.

The traditional analytical method used to forecast demand for residential mortgage volume is housing stock and household formation projections. For obvious reasons, demographic projections, specifically household formation figures are linked with the supply of housing and the demand for mortgage finance. If the current pattern of household formation continues, housing market volume in the 1990s

Strategic analysis is generally regarded as a worthwhile exercise, but it is often ignored.

CHART 1

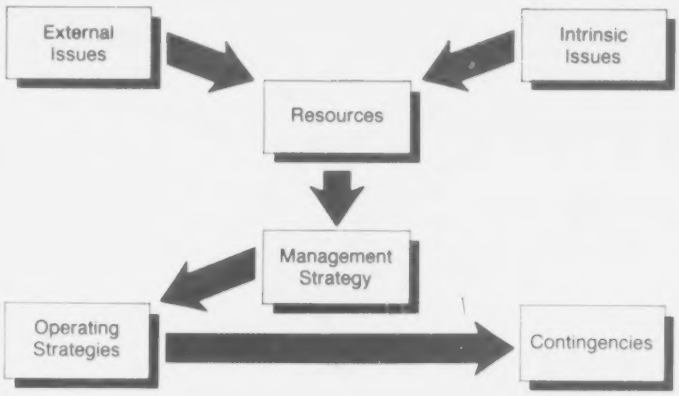

CHART 2

Volatility

will be significantly different than it has been in the last 20 years. During the 1970s, nearly 1.6 million new households were formed annually, which translated into a need for more than 2.1 million units of total new housing supply. The 1980s have seen the number of net new household formations fall to an average annual poll of fewer than 1.3 million households a year. With that drop has come a corresponding shrinkage in the total housing supply to less than 1.8 million new units. The projected number of net new households formed will average only about one million a year in the 1990s, implying further shrinkage in the total new housing supply.[4]

The significant decline in household formation will have a major impact on mortgage bankers. The strategic planning discussion should focus specifically on how revenues will be produced when demand decreases for mortgage product.

The future environment for all mortgage bankers will bring interest rate volatility, industry consolidation and the realignment of participants, as well as reduced demand for housing finance.

So what should lenders do to plan for this difficult business environment?

The next stage of strategic thinking involves determining how the firm will allot its resources under the new conditions. Before a firm devises operating strategies, management should assess five options. These strategic alternatives include: keeping your market share; growing selectively, diversifying, allowing the business to decline, or exiting from the business.

These five options are the core alternatives of a company's investment strategy. The goal of the investment strategy is to select the business activity that generates the highest return on the investment. Before the investment decision is made, it is necessary to analyze the status and position of the mortgage company against the external and intrinsic factors already mentioned. The review process will then create an attractiveness assessment that management matches with its position in the marketplace. It should be recognized that a firm's strength may not complement the external and intrinsic forces. From this assessment, a primary thrust develops that becomes the future focus of the business. For example, a full-service mortgage firm may determine that secondary marketing skills are its forte, servicing is a secondary strength, and origination capability is last. The firm decides that, with continued volatility, hedging skills will be in demand and offer greater potential rewards than risk.

The first and easiest strategy to maintain is the status quo. This strategy may be appropriate for a firm with a significant market share that is a player in a given market and still moving up the growth curve. For the full-service mortgage banker with top secondary marketing skills, "the hold your own strategy" is not desirable, given the firm's view of the market and the company's strengths.

The second strategic alternative is to grow selectively. This approach involves entering or refocusing on markets related to the firm's existing business. Our hypothetical mortgage banker may want to participate in the income property market as an adjunct to its residential lending efforts. Opening offices in growth markets may be another alternative to weigh. But the fixed costs involved may make this strategy unattractive. Our mortgage banker may want to de-emphasize the retail approach, and implement a wholesale lending strategy, playing off its secondary and servicing skills. Each firm must analyze its capital structure and resources before electing this change.

The third alternative is to diversify from present markets. Diversification should be pursued if management de-

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termines that present market demand will not furnish the growth the company needs to be profitable. But the mortgage banker in the previously mentioned example has not decided that the mortgage sector is unattractive. So this alternative would be eliminated in that firm's strategic planning.

The fourth option is to let the mortgage company operation phase out and sell off related assets. This mode generates cash back to the parent to be invested in other more profitable sectors. Our mortgage banker may decide to sell off offices in stages allowing the implementation of a wholesale strategy. The challenge in this approach is that the selected pruning may turn into a full-fledged sell-off eroding prospects for getting the best price for the assets. Finally, the firm may decide to exit the business.

Once an investment strategy has been selected, management would next develop operating strategies to implement the new thrust of the firm. The operating strategies would establish milestones, specific programs and contingencies for when targets are missed.

The goals should be translated into result objectives for sales, market share and profit numbers.

As in any endeavor, the strategic plan should cover potential problems or contingencies that may arise. These problems could center on obstacles or trigger points, which would necessitate a change in the operating assumptions. An example of a significant change would be if interest rates rose to 20 percent. A 20 percent interest rate market would obviously have drastic repercussions on housing, as well as the external and intrinsic assumptions included in the strategic plan.

The strategic planning process supplies management the ultimate risk management tool. It is crucial for a firm to implement a strategic planning program as part of their management activities. To manage without one is like operating a ship without a rudder. It is critical that management perform this analysis because they know their firm best. The challenges facing mortgage bankers today are so complex that relying on gut reactions, at the expense of careful strategic planning, is a likely ticket for failure. **MB**

TABLE 1

Top 25 Companies in Mortgage Servicing, 1987

		12/31/87
1	Citicorp Mortgage Inc., St Louis, MO	$44,400,000,000
2	GMAC Mortgage Co., Elkins Park, PA	24,497,123,407
3	Lomas & Nettleton Financial Corp., Dallas, TX	21,672,114,657
4	CityFed Mortgage Co., Bellevue, WA	19,651,141,000
5	Fireman's Fund Mortgage Corp., Farmington Hills, MI	17,912,142,270
6	Fleet Mortgage Corp., Milwaukee, WI	14,617,594,124
7	Metmor Financial, Inc., Los Angeles, CA	13,818,110,325
8	Goldome Realty Credit Corp., Buffalo, NY	13,665,275,000
9	Commonwealth Mortgage Corp. of America, Houston, TX	12,980,598,009
10	BancBoston Mortgage Companies, Inc., Jacksonville, FL	12,380,000,000
11	Weyerhaeuser Mortgage Co., Los Angeles, CA	10,888,113,914
12	First Union Mortgage Corp., Charlotte, NC	10,801,000,000
13	Sears Mortgage Corp., Lincolnshire, IL	10,568,243,767
14	Fleet Real Estate Funding Corp., Florence, SC	9,956,581,903
15	Shearson Lehman Mortgage Corp., Irvine, CA	9,653,079,257
16	First Interstate Mortgage Co., Pasadena, CA	8,861,000,000
17	Chemical Mortgage Corp., Columbus, OH	8,563,000,000
18	BancPlus Mortgage Corp., San Antonio, TX	8,083,119,000
19	Knutson Mortgage Corp., Bloomington, MN	7,952,599,634
20	Countrywide Funding Corp., Pasadena, CA	7,951,963,000
21	Chase Home Mortgage Corp., Montvale, NJ	7,745,360,000
22	Sovran Mortgage Corp., Richmond, VA	7,207,860,950
23	Imco Realty Services, Inc., Santa Rosa, CA	6,973,328,967
24	Anchor Mortgage Services, Inc., Wayne, NJ	6,828,783,468
25	Empire of America Realty Credit Corp., Buffalo, NY	5,922,000,000

[1]Data gathered by SMR Research Corp., Budd Lake, N.J. SMR is a publishing and consulting firm.
[2]Bert Ely, *American Banker*, March 18, 1988.
[3]12 percent and up coupons—GNMA, FNMA and FHLMC.
[4]Richard F. Hohenson, *Demographics: Profiles of a Changing Society*, Donaldson Lufkin & Jenrette Securities Corp., 1988.

Patricia M. Sherlock is an investment banker at a major Wall Street firm, specializing in financial institutions. She is an adjunct professor for the Real Estate Institute at New York University, and also instructs a school for mortgage pipeline management.

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual Total	HOUSING STARTS: Actual 1-4 Units	HOUSING STARTS: Actual 5+ Units	HOUSING STARTS: Seasonally Adjusted Annual Rates Total	HOUSING STARTS: Seasonally Adjusted Annual Rates 1-4 Units	HOUSING STARTS: Seasonally Adjusted Annual Rates 5+ Units	PERMITS 17,000 ISSUING PLACES: Actual Total	PERMITS 17,000 ISSUING PLACES: Actual 1-4 Units	PERMITS 17,000 ISSUING PLACES: Actual 5+ Units	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates Total	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates 1-4 Units	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates 5+ Units
1988												
MAR	129	105	24	1,529	1,229	300	140	107	33	1,476	1,110	366
APR	154	112	42	1,584	1,151	433	137	100	37	1,449	1,035	414
MAY	140	109	31	1,393	1,056	337	137	105	32	1,436	1,058	378
JUN	150	119	31	1,465	1,154	311	154	114	40	1,493	1,081	412
JUL	138	105	33	1,485	1,115	370	121	92	29	1,420	1,063	357
AUG$_p$	**135**	**109**	**26**	**1,436**	**1,147**	**289**	**135**	**103**	**32**	**1,447**	**1,095**	**352**
1987 TOTAL	1,620	1,211	409				1,535	1,114	421			
1986 TOTAL	1,805	1,263	542				1,770	1,186	584			
8 MONTHS												
1988	1,014	786	228				991	747	244			
1987	1,125	848	277				1,079	793	286			
1986	1,274	888	386				1,161	744	417			
1985	1,176	805	371				1,213	821	392			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual North East	HOUSING STARTS: Actual Mid-West	HOUSING STARTS: Actual South	HOUSING STARTS: Actual West	HOUSING STARTS: Seasonally Adjusted Annual Rates North East	HOUSING STARTS: Seasonally Adjusted Annual Rates Mid-West	HOUSING STARTS: Seasonally Adjusted Annual Rates South	HOUSING STARTS: Seasonally Adjusted Annual Rates West	PERMITS 17,000 ISSUING PLACES: Actual North East	PERMITS 17,000 ISSUING PLACES: Actual Mid-West	PERMITS 17,000 ISSUING PLACES: Actual South	PERMITS 17,000 ISSUING PLACES: Actual West	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates North East	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates Mid-West	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates South	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates West
1988																
MAR	22	18	53	36	290	262	572	405	26	24	54	37	306	276	525	369
APR	25	32	59	37	265	345	595	379	25	28	48	38	265	272	512	400
MAY	20	30	54	36	200	269	562	362	23	29	49	36	236	274	538	388
JUN	26	32	55	37	241	263	584	377	26	30	57	41	247	282	574	390
JUL	25	29	49	35	261	290	563	371	20	24	44	34	225	255	546	394
AUG$_p$	**22**	**25**	**49**	**39**	**207**	**240**	**565**	**424**	**21**	**25**	**49**	**40**	**216**	**249**	**555**	**427**
1987 TOTAL	269	298	634	420					272	282	575	406				
1986 TOTAL	294	296	733	483					283	290	687	510				
8 MONTHS																
1988	167	184	393	269					164	179	373	274				
1987	184	204	437	300					188	194	407	289				
1986	199	204	530	341					189	194	487	343				
1985	159	159	535	324					171	156	509	325				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1] Sold	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res	CONSTRUCTION STATUS (Units in thousands) Seasonally Adjusted Annual Rate Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1988														
MAR	303	68	366	6.8	232.4	117.6	21.6	93.2	999	658	341	121	86	35
APR	322	68	362	6.6	233.0	117.4	21.1	94.5	999	661	338	126	87	39
MAY	344	64	367	6.7	232.5	116.2	21.4	94.9	984	646	338	115	88	27
JUN	379	64	367	6.3	231.0	115.4	21.4	94.2	984	650	334	134	102	32
JUL	331	58	365	6.3	228.7	114.4	21.9	92.4	981	648	333	129	96	33
AUG$_p$	**363**	**59**	**368**	**6.3**	**228.3**	**115.6**	**22.0**	**90.7**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1987 TOTAL	3,520	671										1,669	1,194	475
1986 TOTAL	3,565	750										1,756	1,206	550
8 MONTHS														
1988	2,453	480										n.a.	n.a.	n.a.
1987	2,471	487										1,091	759	332
1986	2,389	535										1,110	751	359
1985	2,170	484										1,089	736	353

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL Total	Mtg. Bankers[2]	S&Ls	Banks[3]	Life Cos	1-4 UNITS Total	Mtg. Bankers[2]	S&Ls	Banks[3]	Life Cos
1987										
DEC	$ 52,632	$ 6,794	$ 16,617	$ 24,833	$ 4,388	$ 29,464	$ 6,582	$ 12,238	$ 10,530	$ 114
1988										
JAN	36,953	5,919	10,683	18,765	1,586	21,139	5,742	8,327	7,038	32
FEB	35,487	5,886	10,924	17,021	1,656	20,634	5,440	8,507	6,626	61
MAR	42,582	6,878	14,394	19,386	1,924	26,343	6,638	11,575	7,984	146
APR	44,532	7,000	15,228	19,972	2,332	28,082	6,702	12,668	8,547	165
MAY$_p$	**51,696**	**7,581**	**17,460**	**24,143**	**2,512**	**32,816**	**7,277**	**14,568**	**10,849**	**122**
1987 TOTAL	648,148	115,373	210,358	286,789	35,628	445,434	110,093	173,822	158,257	3,262
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
5 MONTHS										
1988	211,250	33,264	68,689	99,287	10,010	129,014	31,799	55,645	41,044	526
1987	278,028	62,925	86,546	117,034	11,523	204,000	60,199	72,542	69,738	1,521
1986	179,487	41,529	68,621	58,481	10,856	130,016	38,668	54,896	35,309	1,143
1985	121,787	22,541	51,964	38,948	8,334	81,021	20,950	38,673	21,089	309

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[1]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[1]	S&Ls	Banks[2]	Life Cos.
1987										
DEC.	$ 3,371	$ 97	$ 1,986	$ 969	$ 319	$ 19,797	$ 115	$ 2,393	$ 13,334	$ 3,955
1988										
JAN.	2,122	160	1,171	710	81	13,692	17	1,185	11,017	1,473
FEB.	2,026	385	990	421	224	12,833	61	1,427	9,974	1,371
MAR.	2,387	157	1,349	658	223	13,852	83	1,470	10,744	1,555
APR.	2,589	270	1,233	656	430	13,861	28	1,327	10,769	1,737
MAY$_p$	**3,157**	**256**	**1,495**	**1,024**	**382**	**15,723**	**48**	**1,397**	**12,270**	**2,008**
1987 TOTAL	36,735	2,409	17,719	12,887	3,720	165,979	2,871	18,817	115,645	28,646
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
5 MONTHS										
1988	12,275	1,228	6,238	3,469	1,340	69,961	237	6,806	54,774	8,144
1987	14,927	942	6,890	5,914	1,181	59,101	1,784	7,114	41,382	8,821
1986	11,358	1,602	6,263	2,306	1,187	38,113	1,259	7,462	20,866	8,526
1985	9,019	792	5,237	2,218	772	31,747	799	8,054	15,641	7,253

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[1]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[1]	S&Ls	Banks[2]	Life Cos.
1987										
DEC.	$ 26,649	$ 2,907	$ 15,561	$ 6,170	$ 2,011	$111,370	$ 6,711	$44,927	$46,613	$13,119
1988										
JAN.	28,343	7,271	13,929	5,618	1,525	106,598	8,111	41,990	43,325	13,172
FEB.	27,456	4,490	13,525	6,598	2,843	110,839	9,147	43,049	44,404	14,239
MAR.	37,484	3,969	18,742	10,858	3,915	117,502	7,453	45,589	48,532	15,928
APR.	36,435	3,569	19,895	9,421	3,550	126,301	7,972	47,067	54,091	17,171
MAY$_p$	**41,486**	**5,698**	**22,300**	**10,164**	**3,324**	**130,198**	**10,418**	**49,233**	**52,997**	**17,550**
1987 TOTAL	475,252	96,534	235,457	110,306	32,955					
1986 TOTAL	532,999	128,480	231,915	133,504	39,100					
5 MONTHS										
1988	168,194	21,997	88,391	42,659	15,147					
1987	221,281	52,612	102,492	51,752	14,425					
1986	212,352	52,874	89,810	50,657	18,811					
1985	117,479	18,525	63,981	22,918	12,055					

MORTGAGE INSURANCE

(Units in thousands. Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1988												
MAR.	175	109	15	51	98	7,036	49	2,927	19	1,381	30	2,728
APR.	165	93	14	58	88	6,591	42	2,508	14	1,039	32	3,044
MAY	170	91	18	61	113	8,222	59	3,545	16	1,164	38	3,513
JUN.	168	85	20	63	111	8,466	50	3,006	16	1,209	45	4,251
JUL.	148	75	18	55	130	9,565	72	4,383	17	1,287	41	3,895
AUG$_p$	**162**	**85**	**22**	**55**	**128**	**9,588**	**66**	**4,069**	**19**	**1,451**	**43**	**4,068**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
8 MONTHS												
1988	1,127	623	124	380	771	56,711	394	23,789	121	9,034	256	23,888
1987	1,888	1,050	322	516	1,681	118,285	984	62,476	344	25,248	353	30,561
1986	1,494	581	284	629	1,127	77,076	558	34,059	199	14,205	370	28,812
1985	1,121	248	151	722	834	54,165	235	13,333	112	7,568	487	33,264

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm	FNMA Portfolio Purc	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm to Sell	FHLMC* Comm to Buy	FHLMC* Mtg Purc	FHLMC* Mtg Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1988										
MAR	$ 3,823	$ 2,776	$146,242	$ 3,352	$ 2,973	$ 4,262	$ 2,932	$ 2,312	$ 3,458	$ 3,106
APR	2,565	2,409	149,569	5,444	2,968	6,437	2,772	2,266	4,820	3,315
MAY	2,142	2,108	152,826	4,600	3,552	5,159	2,876	2,325	6,288	4,168
JUN	2,179	2,372	157,438	6,220	4,288	6,447	4,117	3,649	4,964	5,570
JUL	1,108	1,840	160,636	4,895	3,445	5,328	3,879	4,116	5,514	6,348
AUG$_p$	1,041	1,638	163,253	4,261	n.a.	n.a.	n.a.	n.a.	6,517	6,285
1987 TOTAL	25,415	20,531		63,230	68,210	76,615	76,840	75,018	116,611	96,983
1986 TOTAL	33,987	31,826		60,566	107,209	136,179	103,474	102,431	152,911	98,169
8 MONTHS:										
1988	15,364	15,922		31,962	n.a.	n.a.	n.a.	n.a.	36,906	36,281
1987	15,993	12,468		46,351	57,303	61,918	63,225	61,806	89,947	75,478
1986	23,281	17,589		36,544	66,726	70,866	58,255	55,821	82,023	53,352
1985	13,799	14,719		11,933	28,689	31,569	26,802	24,088	39,097	25,901

*In December, master commitment conversions exceeded new master & regular commitments taken.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY FHA New[1]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.
1987							
MAR	10.28%	9.99%	10.01%	9.15%	9.14%	8.60%	9.74%
APR	10.46	10.19	10.19	9.13	9.21	8.86	10.04
MAY	10.65	10.48	10.49	8.95	9.19	9.36	10.36
JUN	10.75	10.35	10.37	9.26	9.28	9.45	10.22
JUL	10.66	10.47	10.47	9.17	9.32	9.70	10.26
AUG	10.70	10.55	10.56	9.07	9.34	10.10	10.49
SEP$_p$	n.a.	n.a.	n.a.	n.a.	n.a.	9.98	10.48

CURRENT SECONDARY MARKET YIELDS

YEAR AND MONTH	GNMA[2]	FNMA[3]	FHLMC[4]
1988			
MAR	9.39%	9.33%	9.29%
APR	9.72	9.62	9.59
MAY	10.01	10.56	10.25
JUN	9.97	10.10	10.06
JUL	9.96	10.31	10.27
AUG	10.13	10.45	10.41
SEP	9.94	10.13	10.11

SELECTED SECURITIES

YEAR AND MONTH	A-Rated[5] Utility	U.S. Government 10-yr.	U.S. Government 26-wk	Prime Comm. Paper 90-119 Days
1988				
MAR	9.91%	8.37%	5.91%	6.62%
APR	10.23	8.72	6.21	6.86
MAY	10.61	9.09	6.53	7.19
JUN	10.41	8.92	6.71	7.49
JUL	10.40	9.06	6.99	7.82
AUG	10.45	9.26	7.39	8.26
SEP	10.26	8.98	7.43	8.17

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1988				
FEB	11	108	106	102
MAR	37	102	96	92
APR	23	100	90	87
MAY	23	92	147	116
JUN	34	105	118	114
JUL	26	90	125	121
AUG	25	87	119	115
SEP	n.a.	96	115	113

NA—Not available. p—Preliminary.

[1] From the National Association of Realtors. Existing Home Sales series.

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa rated New Issue Utility Bonds.

[8] Year to date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.